

# The State and Industry in Bengal, c. 1880–1942

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Even after nearly two hundred years of British rule over Bengal, the industrial development of the province remained pitiful. Various causes such as lack of enterprise and industrial aptitude among the people, shyness of capital, want of skilled manpower, smallness of market, underdeveloped communication system, religious and social structure, lack of sufficient raw materials, uneconomic outlook of the people, etc., have been held to be responsible for the poor industrial performance of the province. However, most of these alleged inhibiting factors were not altogether irremovable ills. Armed with unlimited power, the state by undertaking a positive role could not only remove hindrances to industrial development, but also through appropriate policy decisions promote its cause.

The pioneering role of the state in the industrialisation of the West and Japan are shining examples in this direction. This was exactly what the people of India also demanded from the state. They piously hoped that 'by the joint cooperation of the Government and the people, there appears to be no reason why India, with all its natural advantages, should not reach equal, if not a higher standard' among the manufacturing nations of the world.<sup>1</sup> But were their expectations fulfilled? Did the government (government at all levels) pay heed to the needs and potential of industrial development? If so, how large was their participation? This paper is an attempt to bring forth the amount and degree of state endeavours in resolving the basic problems of Bengal's industrialisation.

The paper is divided into five sections. Policy measures pertaining to tariff questions, stores purchase, the question of capital supply and enterprise are discussed in the first four sections and the fifth is a general survey of the industrial activities of the government during the period under review.

## I

All the industrialised countries of the world, at one time or another, have resorted to appropriate fiscal regulations to accelerate the pace of industrial development. During the first half of the nineteenth century the continental countries succeeded in establishing high customs duties. France had its

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<sup>1</sup> Sir Ibrahim Rahimtoola in the *Indian Legislative Council*, 21 March 1916. See India Office Record (henceforth IOR), L/E/7/855.

system of ultra-protectionism; the German *zollverein* had high rates on manufactured goods and pushed nearly all duties upward in the decade of the 1840s; Russia had many prohibitive charges on imports; Belgium, while part of the kingdom of the United Netherlands (1815–1830), enjoyed protection under laws of 1821 and 1822, and as an independent state raised its rates; and Holland did not begin to reduce the tariff established while united with Belgium until 1846.<sup>2</sup> Although the system of tariff in the continent considerably weakened in the 1850s and 1860s (it should be borne in mind that tariffs were never completely abolished—they were only reduced), it all started to go up again from the 1870s.<sup>3</sup>

In 1879, Germany definitely adopted a policy of protection and under it she made astonishing industrial progress up to the outbreak of World War I.<sup>4</sup> In 1881, France also turned her back on free trade tendencies which had never really met with popular approval.<sup>5</sup> Outside the continent, the United States had ever since the time of the Civil War a very protective tariff.<sup>6</sup> Japan, freed in 1899 from the trammels of the treaty restriction, also utilised her autonomy to establish a protective tariff.<sup>7</sup> The British dominions too had without exception utilised the right of framing their tariff policies in their own interests to protect their industries by high duties.<sup>8</sup> Even in the case of England, it may be noted that her industrial foundation, like those of all other countries, was laid under a system of high protection.<sup>9</sup> Besides examples of other countries, the economic arguments behind adoption of tariff regulations were also powerful.<sup>10</sup> But unfortunately, India's tariff

<sup>2</sup> Shepard Bancroft Clough and Charles Woolsey Cole, *Economic History of Europe*, Boston, 1968, pp. 479, 608.

<sup>3</sup> *Ibid.*, pp. 610–11. Alcroft and Richardson also testify that 'tariffs, usually at increasingly higher rates were introduced intermittently by most important trading countries in the forty years before 1914'. Derek H. Alcroft and Harry W. Richardson, *The British Economy, 1870–1939*, London, 1969, p. 78.

<sup>4</sup> *Report of the Indian Fiscal Commission, 1921–22*, Simla, 1922, p. 33.

<sup>5</sup> *Ibid.*, p. 33.

<sup>6</sup> *Ibid.*

<sup>7</sup> *Ibid.*

<sup>8</sup> *Ibid.* *The Friend of India* also writes; 'The Australian Protectionists have evidently not the slightest desire to encourage inter-imperial trade. What they want to encourage is the development of Australian manufactures, and their programme is to make the Australian taxpayer provide the money for the development. Not only will all important categories of manufactured goods be heavily taxed, from whatever part of the world they may come, but also heavy money bounties are to be paid to encourage the export from Australia of iron and steel goods and of textiles. It is argued that infant industries cannot be expected to struggle unaided against the well-equipped factories and workshops of the Old World.' *The Friend of India*, 12 July 1900, p. 5.

<sup>9</sup> See Ralph Davis, 'The Rise of Protection in England, 1689–1786', in the *Economic History Review*, Second Series, 1966, Vol. XIX, pp. 306–317.

<sup>10</sup> Even free traders were not unmindful of the special cases where manufacturing industries might be established by regulations, if such industries possessed great natural advantages. Adam Smith, for instance, was of the opinion that: 'By means of such regulations, indeed, a particular manufacture may sometimes be acquired sooner than it could have been otherwise, and after a certain time may be made at home as cheap or cheaper than in the foreign

policy from the beginning was regulated not by the Government of India as the case should have been but by His Majesty's Government from Whitehall. In so doing, India's economic interest was subordinated to British interest. Free trade policy which apparently was so beneficial to England was applied to India's case also. The result of such a policy was disastrous. The few industries that India possessed like handloom cotton textile, silk, sugar, came into direct competition with the machine-made products of foreign nations. This unequal competition, besides destroying India's few industries also prevented the rise of modern industries which had possibilities of development if protected at the initial stages from fully developed rivals.

That the commercial policy needed to be modified if industrial development is to be achieved began to be realised by the Indian public from the last quarter of the nineteenth century. In 1878, Morarji Gokaldas in his note to the Government pointed out the necessity of a deviation from the principles of free trade so that new industries and manufactures could be developed in India. Such deviation from the principles of political economy, according to him, was not necessarily their violation but justifiable in view of the state of the Indian society.<sup>11</sup>

Sir Loper Selponedyre noted a strong public feeling in favour of fiscal protection for the nascent industries of India. He was himself of the view that 'when the competition is with the finished products of mills and factories that have the initial advantage of a protected market at home, the attempts become utterly helpless and actually ruinous.'<sup>12</sup> Alfred Chatterton of the School of Arts and College of Engineering, Madras, in his memorandum to the Government correctly summed up the situation thus:

The commercial difficulties . . . are the crux of the whole matter, and even a partial solution of them would probably lead to an industrial expansion in India which would materially contribute to establish her prosperity . . . Hitherto . . . it has been very difficult to set up an industry against the competition of the highly organized and splendidly

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country'. See Adam Smith, *An Inquiry into the Nature and Causes of the Wealth of Nations*, edited by Edwin Cannan, London, 1904, Vol. I, pp. 422-23. John Stuart Mill also felt that protective duties were sometimes justified if imposed temporarily especially in a young and rising nation, in the hopes of naturalising a foreign industry. To him: 'The superiority of one country over another in a branch of production, often arises only from having begun it sooner. There may be no inherent advantage on one part, or disadvantage on the other, but only a present superiority of required skill and experience. A country which has this skill and experience yet to acquire, may in other respects be better adapted to the production than those which were earlier in the field . . .'. See *Collected Works of John Stuart Mill*, Toronto, 1965, Vol. III, p. 918.

<sup>11</sup> See IOR. L/PAR/1/176, pp. 217-19. Notes by Morarji Gokaldas, C.I.E., on the Duty of Government in Fostering Industries.

<sup>12</sup> *Industrial India*, vol. III, no. 10 October 1906, p. 287.

equipped manufactures of England, America and the Continent. The United States of America and Japan afford excellent examples of what can be done in this direction under initially adverse circumstances.<sup>13</sup>

In spite of such vigorous public opinion, examples of other countries and valid economic arguments, the British Government stubbornly refused to reconsider India's tariff question even as late as 1916 when the Indian Industrial Commission was set up to ascertain the possibilities of further industrial development in India.<sup>14</sup> It was only in 1919 when the Joint Select Committee constituted to examine the relations between the Secretary of State and the Government of India recommended that the continued manipulation of fiscal policy from Whitehall was likely to endanger good relations between India and Great Britain, that the British Government gave way.<sup>15</sup> The acceptance of the Committee's recommendation was communicated to the Government of India by the Secretary of State on 30 June 1921. The Government of India appointed on 7 October 1921 a Fiscal Commission 'to examine with reference to all the interest concerned the Tariff Policy of the Government of India . . .'.<sup>16</sup>

The Indian Fiscal Commission came out in favour of a discriminatory policy so as to make the inevitable burden on the community as light as was possible with due regard to the development of industries. In choosing the industries to be protected it laid down three fundamental conditions. First, the industry must possess natural advantages, cheap power, sufficient supply of labour and a large home market. Second, the industry must be one which without the help of protection was not likely to develop at all or as rapidly as was desirable in the interests of the country. Third, the industry must be one which would eventually be able to face world competition without protection.<sup>17</sup> The Government of India accepted the recommendations and in June 1924 appointed a Tariff Board to give effect to the policy. Its main task was to study the applications for protection and refer its recommendations to the Government of India.

The Tariff Board studied many applications and recommended the suitable ones to the Government. Many industries which were granted protection showed excellent results. The cotton textile industry, for example, was

<sup>13</sup> *The Indian Agriculturist*, 1 May 1901, p. 145.

<sup>14</sup> See the speech of Sir William Clark in the *Indian Legislative Council*, 21 March 1916, p. 464. Prior to the appointment of the Industrial Commission, the Government of India had sought the opinion of the Secretary of State in Council on the issue of state-aid to industries without a modification of the 'existing fiscal policy'. Confidential letter no. 51 of 1915 in the Department of Commerce and Industry (Industries), Government of India to Austen Chamberlain in IOR. L/E/7/855. The same was sanctioned. Ibid. See Note on the Encouragement of Indian industries.

<sup>15</sup> *Report from the Joint Select Committee on the Government of India Bill*, vol. I, Report and Proceedings (Parliamentary Paper IV of 1919), p. 11, clause 33.

<sup>16</sup> *Report of the Indian Fiscal Commission, 1921-22*, p. iv.

<sup>17</sup> Ibid., pp. 54-55.

granted protection in 1926–27 and the number of mills and their production increased greatly. In 1931, there were 21 cotton mills in Bengal which increased to 46 in 1936.<sup>18</sup> In 1926–27 Bengal cotton mills spun 31.54 million pounds of yarn and 7.5 million pounds of woven goods which increased to 45.70 million pounds of yarn and 43.8 million pounds of woven goods by 1938–39.<sup>19</sup> Similarly, due largely to foreign competition, not a single modern sugar factory existed in Bengal till 1932, the year the industry was granted protection. By 1938–39, however, Bengal possessed 10 sugar mills having a total crushing capacity of 5,000 tons a day.<sup>20</sup> These two industries—cotton textile and sugar would probably have benefitted much more from protective duties but for the internal competition from Bombay and other regions in the case of cotton textiles and the United Provinces and Bihar in case of sugar.

Iron and steel was another industry which got a big boost due to the protection granted to it in 1924. In Bengal, Messrs. Sir Sarupchand Hukumchand and Company started Hukumchand Electric Steel Works at Ballygunge. The steel produced was of the highest quality and was comparable with grade 'A' of the British Engineering Standard Specification.<sup>21</sup> Two other big iron and steel companies also benefitted in Bengal. The first was the Bengal Iron Company<sup>22</sup> which specialised in the production of pig iron, cast iron pipes, fencing posts and sockets, railway chairs and sleepers. In this section of trade, Bengal could hold its own against any country in the world.<sup>23</sup> The other was the Indian Iron and Steel Company which came into existence in March 1918 with an authorised capital of three crores of rupees.<sup>24</sup> The two were amalgamated in 1936, and the company now had a

<sup>18</sup> *Report of the Indian Tariff Board regarding the grant of protection to the Cotton Textile Industry*, Calcutta, 1932, pp. 9–10; and Government of Bengal, Department of Industries, *Bulletin No. 75, Cotton Mill Industry in Bengal*, Alipore, 1943, p. 6.

<sup>19</sup> *Statistical Abstract for British India with statistics, where available, relating to certain Indian states from 1921–22 to 1930–31*, London, 1933, pp. 754–57; *Ibid.*, 1930–31 to 1939–40, London, 1943, pp. 626–29.

<sup>20</sup> *Sugar Technologist's Association (of India) Year Book, 1939–40* (Cawnpur, n.d.), Appendices on the List of Sugar Factories and Refineries existing in India in the year 1938–39, List A, pp. 14–15. For a study of the growth of sugar mill industry under tariff protection see A.K. Bagchi, *Private Investment in India*, Cambridge, 1972, pp. 359–90.

<sup>21</sup> *The Indian Railway Gazette*, June 1925, pp. 212–13. The Hukumchand Electric Steel Works was established with a view to meeting the demand for steel castings which was mainly required by the great Indian railways for their rolling-stock and also by the firms engaged in carriage and wagon building. Till then railways had to keep considerable capital idle in the form of stock of spares to replace breakages.

<sup>22</sup> The Burrakpur Iron Works of Bengal Iron and Steel Company was originally established in 1875. But as this private enterprise was not a financial success, it was closed down in 1879. A few years later, the Government took up the venture, and carried it for eight and a half years when the Bengal Iron and Steel Company took it up in 1889. *The Indian Railway Gazette*, March 1911, p. 84. The Bengal Iron and Steel Company was reconstituted in 1919 as the Bengal Iron Company with an authorised capital of £2,500,000. See, *Report on the Administration of Bengal, 1921–22*, p. 41.

<sup>23</sup> *The Englishman* (Annual Financial Review), 4 March 1918, p. 9.

<sup>24</sup> *Report on the Administration of Bengal, 1921–22*, p. 41.

capacity of 850,000 tons of pig iron and 100,000 tons of cast iron pipes, sleepers and general iron casting per annum.<sup>25</sup> In 1937, a new company called the Steel Corporation of Bengal was formed for the manufacture of steel from pig iron. The Steel Corporation plant was set up next to the blast-furnace of the Indian Iron and Steel Company near Asansol, and the Corporation took hot metal from the latter under an agreement.<sup>26</sup> It produced structurals, heavy rails, sheets (black and galvanised), bars, steel and tool steel to certain specifications.<sup>27</sup> Due largely to protection, the iron and steel industry was thus able to stand firmly on its own feet 'except against dumping'.<sup>28</sup> Under its influence, the ship-building industry also prospered. The total number of joint stock iron, steel and ship-building companies working in 1920-21 was 29. It rose to 39 in 1925-26, 59 in 1930-31 and in 1935-36 no less than 69 such companies existed in Bengal.<sup>29</sup>

Industrial development through discriminatory protection could have been more rapid had the government been really genuine in promoting its cause. In many cases, the recommendations of the Tariff Board were not accepted or were only partially accepted as in the case of heavy chemical industries.<sup>30</sup> Sometimes, the government also put rigid and harsh interpretations to laid down conditions as in the case of the glass industry which was deprived of protection simply because soda-ash, a raw material for its manufacture had to be imported.<sup>31</sup>

## II

At a time when India's demand for protection was invariably rejected, purchase of stores of local origin by the government for their civil and military departments could have helped in the development of industries by injecting in them the element of demand. But unfortunately, the stores rules framed from time to time by the Government of India with the sanction of the Secretary of State displayed total indifference to Indian manufacturing interests. Till the last quarter of the nineteenth century 'every item of these stores, from the biggest machinery to the smallest doornail' was imported from England.<sup>32</sup> Commenting on the unfairness of such a deal, *The Statesman* and *The Friend of India* said:

If local iron-manufacturers can turn out the materials for bridges and roofs of large span, of as good quality, and as cheap, as can be obtained

<sup>25</sup> *Report of the Indian Tariff Board on the continuance of protection to the Iron and Steel Industry*, Bombay, 1947, p. 9.

<sup>26</sup> *Ibid.*, p. 10.

<sup>27</sup> *Ibid.*

<sup>28</sup> *Ibid.*, p. 6.

<sup>29</sup> Department of Industries, Bengal: *Bulletin No. 83, Report on the Growth of Joint-Stock Companies in Bengal*, Alipore, 1939, p. 11.

<sup>30</sup> IOR: Economic and Overseas Department Collections, File No. L/E/9/1027.

<sup>31</sup> *Bengal Legislative Council Proceedings*, 27 February 1939, Vol. I, p. 335.

<sup>32</sup> IOR: L/PAR/1/176. See Note by Morarji Gokaldas.

through the India Office, why, in the name of commonsense, should they not be allowed to do so. Why should they be not allowed to do so even if their interests alone were at stake, and not, as actually is the case, the interests also of the country whose labour they employ, and whose material, too, they would by and by employ, if properly encouraged? Why, above all, should it be laid down as a rigid rule, to which no exception can be made (unless in case of sudden and unforeseen emergency), that, 'in the case of railways under construction, the whole of the necessary supplies' are to be procured, as heretofore, by indent on the Secretary of State? Why in the name of all that is just, and honest, and national, if local manufactures can produce sleepers, or rails, or even locomotives, that come up to standard, and are as cheap as those procured through the Secretary of State, should they, being on the spot, not have the preference? No answer can be given that will stand the test of logic and common sense. No answer can be given that would not be a patent subterfuge, except an answer which will not be given, and which would cast infinite discredit upon those who are responsible for the rules.<sup>33</sup>

As a result of public criticism, the stores rules were subsequently changed. Under the modified rules of 1904, certain higher officials of the Government of India and Local Governments were authorised to purchase stores of local origin not exceeding Rs. 50 in value.<sup>34</sup> Due to defects in the instructions, however, even this policy of the Government could not be carried into complete effect. The rules were rather cast in a permissive form and did not require preference to be given to locally produced articles.<sup>35</sup> In addition, there were practical difficulties in implementing the rules which required a comparison to be made in respect of price and quality between the locally manufactured articles and those obtained from England.<sup>36</sup> No less was the complexity regarding the interpretation of the condition that an article manufactured in India from imported materials must not have been imported into India in a finished or partly finished state.<sup>37</sup> The result of these defects has been that the Committee appointed to enquire into the procedure prescribed for the purchase of stores for the use of government departments in India while reviewing the indents of the more important of the consuming departments found that orders to the value of £ 467,319 were sent Home in the year 1904-05 for articles which could probably have been obtained of local manufacture.<sup>38</sup>

<sup>33</sup> *The Statesman and Friend of India*, 21 November 1891, p. 2.

<sup>34</sup> IOR: Vol. 7861, Bengal General Proceedings (Misc.), November 1908, No. 79, p. 455.

<sup>35</sup> This was the opinion of a Committee appointed in 1906 by the Government of India to enquire into the procedure prescribed for the purchase of stores for the use of government departments in India. It might be noted that the Committee's Report was not allowed to be published but a summary of the conclusion was given. See, IOR: Vol. 8139, Bengal General Proceedings (Misc.), August 1909, Nos. 12-15, p. 187.

<sup>36</sup> Ibid.

<sup>37</sup> Ibid.

<sup>38</sup> *The Statesman*, 22 July 1909, p. 14.

The resources of Indian manufacturers, as a whole, are in the Committee's opinion not being taxed to the full. . . . The Committee satisfied themselves that Indian manufacturers are both able and willing to undertake a much larger volume of work than at present is entrusted to them by Government department, . . . .<sup>39</sup>

In 1908, the Governor-General, probably on the recommendations of the Committee of 1906, revised the money limits to Rs. 250 for the purchase of stores of civil departments which could be procured in India by Heads of Departments, Commissioners of Divisions, and other officials of or above the rank of Collector whom the Local Government might select.<sup>40</sup> Steps were also taken (in 1909) for careful scrutiny of indents before inclusion of such orders in the demand on the India Office.<sup>41</sup> These modifications in the store rules could not, however, bring about any appreciable change in the attitude of the sanctioning officers towards local products. One probable reason for not doing so was perhaps the absence of suitable purchasing agencies in India prior to 1922. As a result, officers empowered to buy local products/manufactures had to be on the look out for goods the quality of which was satisfactory and price not unfavourable.

During the First World War, Indian manufacturers for the first time got a temporary boost owing to Britain's inability to keep up with its export trade with India. To economise freight, stricter rules were framed for export from the United Kingdom into India of materials on the prohibited list. Goods could now only be imported on Priority Certificates issued by the Government. Munitions Boards were set up at the Centre with Controller of Munitions in the different Circles for arranging supplies to various governments and to the armies overseas. In Bengal, the Munitions Board during this time was itself purchasing twice as much as all other departments—municipal corporations and railway companies—put together. This led to the growth of some manufacturing industries.<sup>42</sup>

After the War, in pursuance of the recommendations of the Indian Industrial Commission, a Stores Purchase Committee was formed with F.D. Couchman, Member, Railway Board as its head. The Committee recommended the setting up of the Indian Stores Department which would act on behalf of all Imperial departments of the Government of India and such as might desire to avail themselves of its assistance.<sup>43</sup> In accordance with the recommendation of the Committee, the Government of India set

<sup>39</sup> Ibid. The quotation is that of the resolution issued in the Department of Commerce and Industry, Government of India.

<sup>40</sup> IOR: Vol. 7861, Bengal General Proceedings (Misc.), November 1908, No. 79, p. 455.

<sup>41</sup> *The Statesman*, 22 July 1909, p. 14.

<sup>42</sup> J.C.K. Petersen, 'Industrial Development in Bengal', *Englishman* (Annual Financial Review), 4 March 1918, p. 11.

<sup>43</sup> *Report of the Stores, Printing and Stationary Sub-Committee of the Retrenchment Advisory Committee*, September 1932, Simla, 1932, p. 9; A.G. Clow, *The State and Industry*, Calcutta, 1928, pp. 84-85.



up the Indian Stores Department in Delhi in January 1922 for the purpose of purchasing various classes of stores required for the public service.<sup>44</sup> Though its services had been utilised by several departments of the Central Government as well as of Provincial Governments, company railways, Indian States and quasi-public bodies in an appreciable and gradually increasing degree, recourse to the Department, it may be mentioned, had been kept entirely optional till 1929.<sup>45</sup> The adoption of Rupee Tender System which came into operation on 1 January 1931 brought about, however, the most significant change. These rules prescribed that in purchasing stores preference should be given in the following order:

Firstly, to articles which were produced in India in the form of raw materials, or were manufactured in India from raw materials produced in India, provided that the quality was sufficiently good for the purpose; Secondly, to articles wholly or partially manufactured in India from imported materials, provided that the quality was good for the purpose; Thirdly, to articles of foreign manufacture held in stock in India provided that they were of suitable type and requisite quality; Fourthly, to articles manufactured abroad which needed to be specially imported.<sup>46</sup>

As a result of the new rules, the Indian Stores Department, Delhi even purchased such articles as wheels and axles, spare parts for motor vehicles, boiler tubes, transport flat and ferry staging, lighthouse equipment, and electrical equipment for telegraph department which were formally obtained from abroad.<sup>47</sup> This process of buying local products kept on increasing and by the year 1938–39 goods worth almost nine crores of rupees were purchased annually by the Indian Stores Department, Delhi and most of these stores were purchased from Bengal, the products of which were mainly textile and leather goods, engineering, hardware and miscellaneous items.<sup>48</sup>

In 1926, the Secretary of State for India had also given the Governor's provinces the right to frame their own stores rules. The underlying policy of the new rules, published in August of the same year, was the encouragement of local industries. The departments and officers of the government were also instructed to utilise to the fullest extent the services of the Indian Stores Department, Delhi. Due largely to changes in the rules, the Bengal

<sup>44</sup> *Administration Report of the Indian Stores Department, 1929–30*, p. 1.

<sup>45</sup> *Ibid.*

<sup>46</sup> *Ibid.*, pp. 2–3.

<sup>47</sup> *Ibid.*, 1931–32, p. 2.

<sup>48</sup> Iftikhar-ul-Awwal, *The Industrial Development of Bengal, 1900–1939*, Delhi, 1982, Table 2.3; and *Administration Report of the Indian Stores Department, 1931–32*, pp. 63–64, Appendix VII.

Government's own purchase on stores produced in India increased from Rs. 3,17,838 in 1914-15 to Rs. 23,81,000 in 1929-30.<sup>49</sup> In 1933, the Government of Bengal revised its rules again to suit the Rupee Tender System, the main features of which were the removal of financial restrictions on local purchase and the allowance of a limited degree of preference in respect of price to articles produced or manufactured in Bengal.<sup>50</sup> But unfortunately, as the Bengal Government did not have any permanent purchasing agency, the stores rules framed from time to time were not strictly adhered to. A scheme for the setting up of such an agency was contemplated in the late 1930s but had to be abandoned owing to war emergency.<sup>51</sup>

### III

The financial institutions of Bengal, viz., the commercial banks, in spite of having substantial holdings<sup>52</sup>, kept themselves more or less aloof from industries as they considered locking up of any large part of their funds outside the scope of banking, proper. Only those industries which had a record of proven success and could offer acceptable security like the jute, tea and the larger colliery companies had some luck in getting a part of their working capital. The middle-sized industries, unable to offer the security of approved names, or of stocks which could be readily disposed of faced immense difficulties even in obtaining such short term loans. They suffered in a special degree from this deficiency, for, among other reasons, they found it difficult to satisfy a bank, whose directorate and superior staff were entirely European, as to their financial position. In regard to their policy of financing industries, the Indian commercial banks thus followed an ultra conservative policy unlike the Great Commercial Banks of

<sup>49</sup> IOR: Vol. 12049, Bengal Revenue Proceedings (Industries), September 1935, No. 22, p. 57.

<sup>50</sup> Ibid.

<sup>51</sup> Lumpsum provision for the establishment of a provincial organisation for the purchase of stores was made in 1938-39 and repeated in the two following years, but no part of it could be utilised even after elaborate inquiries 'particularly in view of War emergency'. Hence the scheme was finally abandoned. *Report of the Committee on Public Accounts of the Bengal Legislative Assembly on the Appropriation, Accounts and Finance Accounts of the Government of Bengal for the year 1940-41 and the Audit Reports, thereon*, Alipore, 1943, p. 12.

<sup>52</sup> Some idea of the holdings of the Indian commercial banks can be gauged from the deposits of the Bengal Circle of the Imperial Bank of India for the last week of March 1925. The amounts shown below are in lakhs of rupees:

	European	Indian	Bank's	Total
Current Account				
deposits	3.96	7.53	3.95	15.44
Fixed Deposits	2.55	9.96	5	12.56

See *Report of the Bengal Provincial Banking Enquiry Committee, 1929-30*, Vol. I, Report, Calcutta, 1930, p. 39.

Germany which, since 1870, played an important part in the industrial development of that country by undertaking, in addition to the ordinary banking business (of attracting deposits, giving loans, and discounting bills), the supply of credit to promote the founding of industries.<sup>53</sup> The model of these was, of course, the Paris Credit Mobilier, founded in 1852, to promote industrial and financial enterprises.<sup>54</sup>

In the absence of a well-developed capital market, the government, despite their financial stringency, could have come forward in a constructive manner by reorganising credit which was already available within the country. As M.G. Ranade so rightly pointed out:

The state need not expend its funds. The funds will be forthcoming to any amount if it only promises to organise the agency, and set it at work. The Post Office and Savings Banks deposits are ready at hand. All that government has to do is to organise . . . Indian capitalists . . .<sup>55</sup>

But the government preferred to maintain their 'hands-off industries' policy with the result that in spite of having capital ready at hand awaiting secure investment, there was the broad dreary expanse of industry which was thirsting for capital. The proposal of the Indian Industrial Commission for the setting up of an industrial bank which it considered 'a potent means of removing these difficulties and affording help to industries' also fizzled out with the provincialisation of the subject of industrial development in 1919.<sup>56</sup> In the absence of some such device, 'industrial concerns in Bengal', observed the Bengal Provincial Banking Enquiry Committee, 'are not flourishing. Many are failing and others are compelled to curtail their activities'.<sup>57</sup>

In 1931, although the Government of Bengal enacted the Bengal State Aid to Industries Act for the purpose of providing financial assistance to small and cottage industries, it failed mainly due to obstructive rules framed by the Government for carrying out the Act. To enquire into various applications for loans, a Board of Industries was formed in October

<sup>53</sup> Supplementary written evidence of G. Findlay Shirras to the *Indian Industrial Commission, 1916-18*, Vol. V, pp. 804-10.

<sup>54</sup> *Ibid.*, pp. 805, 811.

<sup>55</sup> Rao Bahadur Mahadev Govind Ranade, 'The Reorganization of Real Credit in India', *Report of the First Industrial Conference held at Poona, Poona, 1891*, pp. 61-62. The amount of money in the Savings Bank in Bengal proper totalled, for example, 5.49 and 5.91 crore rupees in the years 1927-28 and 1928-29 respectively. Besides, Indian Post Offices also dealt with 'Cash Certificates'. In 1927-28, the amount realized by issue of Cash Certificates was 1 crore and 12 lakh rupees. See *Report of the Bengal Provincial Banking Enquiry Committee, 1929-30*, Vol. III, Evidence-Part II, pp. 11-13.

<sup>56</sup> *Report of the Indian Industrial Commission, 1916-18*, London, 1919, p. 182.

<sup>57</sup> *Report of the Bengal Provincial Banking Enquiry Committee, 1929-30*, Vol. I, Report, p. 122.

1932, and certain rules were framed by it in November of the same year. These were sent up to government for sanction. However, when the approved rules came up to the Board, it found grave objections to some of the prescribed procedures. Firstly, the rules laid maximum stress on the question of security for any loan or advance. It laid down that: 'Every loan granted under the Act shall be secured by a mortgage or a floating charge or by both mortgage and floating charge upon the whole of the assets of the owner of the industry'.<sup>58</sup>

The Board was also required to be absolutely certain that the realisable value of the properties to be mortgaged was above the market value of loan and easily realisable and free from encumbrances. Needless to say, most of the applicants failed to satisfy this stringent condition for aid. Perhaps anticipating such inability on the part of small investors, the State of Mysore in their State Aid to Industries Act did not include the provision of security for loans and advances.<sup>59</sup> Even the working of the Act in Bengal showed that no significant amount of the loans advanced was considered as irrecoverable and bad debt.<sup>60</sup> Secondly, the rules did not delegate any financial power to the Board to grant state aid to an industry. In the absence of which every application for aid had to be sent up for acceptance or rejection by government. The Board thus became only a sort of committee for the disposal of loan petitions.<sup>61</sup> Thirdly, the rules required the invitation of objections by advertisements in newspapers before the application was accepted or refused. This was done through public advertisements in three successive issues of two Calcutta daily newspapers and in some *mofussil* newspapers. This was a sure way of driving away applicants. 'The people consider it very humiliating and have become very shy to come to the Board for help', observed a member of the Council.<sup>62</sup> The advertisements in newspapers also caused delays in the disposal of loan petitions 'often resulting in a total change of circumstances necessitating a financial aid'.<sup>63</sup> Moreover, the publication of advertisements involved unnecessary expenditure as often no aid was eventually granted to the applicant.

<sup>58</sup> Bangladesh Secretariat Records (henceforth BSR): Bundle No. 3, Proceedings of the Agriculture and Industries Department (Industries), September 1933, No. 7, p. 4.

<sup>59</sup> BSR: Bundle No. 8, Proceedings of the Agriculture and Industries Department (Industries), B Proceedings, File No. 21/20 of 1938.

<sup>60</sup> BSR: Bundle No. 2, Proceedings of the Agricultural and Industries Department (Industries), B Proceedings, File No. 3C/12 of 1936. Perhaps the only case where a sum of Rs. 794 had to be written off was granted to one G.G. Cruickshank, Prop., Montgomery Dairy, 12 Tapsia Road, Tiljala, Calcutta. See Iftikhar-ul-Awwal, 'Genesis and Operation of the Bengal State Aid to Industries Act, 1931', in the *Indian Economic and Social History Review*, Vol. XVII, No. 4, p. 415.

<sup>61</sup> In July 1936 although the government did relax the rules and delegate to the Board the power to dispose of applications for aid up to a sum of Rs. 5,000, it was withdrawn in 1938 to bring it into conformity with the provisions of the Government of India Act, 1935. See, Iftikhar-ul-Awwal, *Genesis and Operation*, op. cit., pp. 415-16.

<sup>62</sup> *Bengal Legislative Council Proceedings*, 28 March 1935, Vol. XLV, No. 2, p. 683.

<sup>63</sup> *Proceedings of the Agriculture and Industries Department (Ind)*, March 1938, No. 6, p. 7.

On being approached by the Board on several occasions, the government granted discretionary powers in the matter of inviting objections to the grant of applications up to Rs. 1,000 in 1936 and subsequently raised the amount to Rs. 3,000 in November 1937.<sup>64</sup> Besides shortcomings of the rules, the government also followed a dilatory policy in considering the recommendations of the Board. Till the end of January 1935, nearly 27 months after the first sitting of the Board, not a single applicant had received any aid and by 1943–44 only Rs. 3.10 lakhs had been sanctioned as state aid to 132 applicants (out of 358 who had applied), the amount of grant per successful applicant being Rs. 2,365 only.<sup>65</sup> As regards cash credit facilities, we know of only one case where a sum of Rs. 25,000 was granted in 1936 for a period of 10 years for the development of the silk industry.<sup>66</sup> The other provisions of the Act, remained a dead letter for no assignable reasons whatever.

The local government had also participated in a programme to assist financially small industries through an industrial bank—the Industrial Credit Syndicate Limited. The Syndicate, established in 1937, with a total paid-up capital of just over Rs. 150,000 was a registered company under the Indian Companies Act. Other features of the Syndicate were:

- (a) The government was to contribute towards the administrative expenses of the Syndicate a sum of Rs. 20,000 for a period of five years.
- (b) The government undertook to make good one-half of any loss, up to an amount not exceeding Rs. 10 lakhs, in respect of the first loans issued from public funds. The government similarly accepted the liability for one-half of the loss incurred for subsequent loans which would be paid from the sums set free by those to whom the first loans were sanctioned.
- (c) Undertakings established with the assistance of loans were to be systematically inspected under arrangements to be agreed upon between the government and the Syndicate; such inspection included the giving of technical advice and guidance.
- (d) The position of the Syndicate to be reviewed after ten years with a view to a decision whether it should be continued with or without government assistance or be wound up.<sup>67</sup>

Unfortunately, however, the objectives for which the Syndicate was established remained unfulfilled. By the close of financial year on 31 March

<sup>64</sup> Ibid., Bundle No. 5, B Proceedings, File No. 1R/5 of 1938; and the *Annual Report of the Board of Industries, Bengal for the year 1936–37*, pp. 1–2.

<sup>65</sup> *Bengal Legislative Council Proceedings*, 28 March 1935, Vol. XLV, No. 2, p. 678; and Awwal, 'Genesis and Operation,' *op. cit.*, p. 417.

<sup>66</sup> Proceedings of the Agriculture and Industries Department (Ind), September 1936, Nos. 1–3, pp. 3–8.

<sup>67</sup> *Report of the Bengal Industrial Survey Committee, 1948*, p. 326; and *Report on the Administration of Bengal, 1935–36*, p. xxii.

1938, the Syndicate had financed only nineteen industries with just over Rs. 90,000 of which Rs. 18,211 (including the amount of interest for the period up to date) remained outstanding.<sup>68</sup> Furthermore, in no case had the loan to a single individual exceeded Rs. 15,000 and in a large number of instances it was just above Rs. 1,000.<sup>69</sup> The failure of the Syndicate to serve its purpose has been attributed by the Bengal Industrial Survey Committee to organisational deficiency.<sup>70</sup> The Government on their own part, without making efforts to remove the defects shown in its working, simply disassociated itself due to contravention of agreed terms.<sup>71</sup>

Another scheme of the Government under which financial assistance was provided was the Detenu Training Scheme. Under the scheme, misguided political detenus who had undertaken special technical training in brass, bell-metal and cutlery, pottery, and umbrella making were provided with loans of over six and half lakh rupees during the four years from 1936–37 to 1939–40.<sup>72</sup> With the help of government money, 2 pottery factories, 8 brass, bell-metal and cutlery factories, and 12 umbrella factories were started.<sup>73</sup> But due, principally, to neglect of duty and absence of supervision on the part of officers concerned, the detenu scheme ended in dismal failure causing total loss to government treasury.<sup>74</sup>

A small amount of loan was also sanctioned annually to the students passing out from the government weaving institutes to enable them to follow the profession independently. The amount of such loan totalled Rs. 60,447 from 1921–22 to 1938–39, i.e., Rs. 3,358 per year on the average.<sup>75</sup> These loans bore an interest of 6.5 per cent per annum and were repayable in 24 equal instalments.<sup>76</sup>

The state's economic support to private industrial enterprise was thus totally inadequate. The government of Bengal had come to an understanding with the commercial banks operating within the province regarding credit provisions for industrial ventures. This was not difficult as the banks were not unwilling to support productive enterprises if the government agreed to guarantee them to the extent they would invest into industries.<sup>77</sup>

<sup>68</sup> Proceedings of the Agriculture and Industries Department (Ind), November 1940, Nos. 17–20, pp. 16–18.

<sup>69</sup> Ibid., Nos. 19–20, p. 18.

<sup>70</sup> *Bengal Industrial Survey Committee*, p. 326.

<sup>71</sup> Ibid.

<sup>72</sup> *Report of the Committee on Public Accounts of the Bengal Legislative Assembly . . . 1940–41*, pp. 21–31.

<sup>73</sup> Ibid.

<sup>74</sup> A government investigation was undertaken by M.N. Chatterjee on the financial position of factories and farms started under the Detenu Training and Setting-up Scheme. Mr. Chatterjee in his report listed various irregularities responsible for the break down of the scheme. Ibid., p. 30.

<sup>75</sup> Awwal, *Industrial Development*, p. 228.

<sup>76</sup> Ibid.

<sup>77</sup> *Indian Industrial Commission*, Vol. II (Evidence) (Parliamentary Paper XVIII of 1919), p. 132.

As no such guarantee was forthcoming, industries were deprived of one of the cheap sources of capital supply. The government could also have come forward to mobilise savings from those groups in society who were making it and extend the same to those who needed the credit for productive investment. Unfortunately, the government of the day adopted a passive role in this direction which was directly counter to industrialisation.

#### IV

British officials and others in India alleged that the spirit of enterprise was more or less absent amongst the indigenous population of Bengal. This absence of enterprise, they alleged, was accountable for the limited degree of industrial development of the region and the main cause of Bengal's economic ills. In 1890, E.W. Collin in his *Report on the Existing Arts and Industries in Bengal* accused the capitalists of Bengal for 'wanting in enterprise' and failing to introduce 'new manufactures'.<sup>78</sup> S.J. Tellery of Messrs. Tellery and Co. speaking at the British India Association, Calcutta, in 1900 also blamed the inhabitants of India for lacking in enterprise. 'It is the lack of private enterprise in the natives of India', said Tellery 'which is the principal cause . . . for this state of things.'<sup>79</sup> The same theme was voiced later on by the *Capital*, which in 1929, commented that 'the Bengalee, owing to his lack of interest in, and lack of proficiency for, industrial pursuits' was wholly responsible for his poverty.<sup>80</sup> The charge that Indians lack in entrepreneurial spirit is, however, not consistent with historical truth. Throughout history, the people of this region have shown considerable industrial and commercial activity not inferior to any nation in the world. As the Indian Industrial Commission wrote in 1918:

At a time when the west of Europe, the birthplace of the modern industrial system, was inhabited by uncivilized tribes, India was famous for the wealth of her rulers and for the high artistic skill of her craftsmen. And, even at a much later period, when merchant adventurers from the West made their first appearance in India, the industrial development of this country was, at any rate, not inferior to that of the more advanced European nations.<sup>81</sup>

Even in the first half of the nineteenth century, when the British had established their political supremacy in India, Bengalis had formed business partnerships with them. But due to fraud and deception and over-speculation on the part of their British partners, Bengali businessmen practically withdrew from any adventurous business activity in Calcutta. 'A distrust

<sup>78</sup> E.W. Collin, *Report on the Existing Arts and Industries in Bengal*, Calcutta, 1890, p. 14.

<sup>79</sup> *The Indian Agriculturist*, 1 October 1900, pp. 305-06.

<sup>80</sup> *Capital*, 21 February 1929, p. 389.

<sup>81</sup> *Indian Industrial Commission, 1916-18, Report* p. 1.

among European business became a part of Bengali thinking'.<sup>82</sup> Again, at the turn of the twentieth century, the Swadeshi Movement brought forth a spurt of industrial activity in the province. Although the movement failed to take root in the soil, 'the desire which gave birth to it has been in no way diminished'.<sup>83</sup>

According to Alfred Chatterton, the qualities of an industrial leader could be acquired in three stages, firstly, he could acquire scientific and technical knowledge, then practical experience in technology and finally, business experience and aptitude in handling affairs. According to him the Education Department provided the first through science colleges and technical institutions; the second could be obtained only in workshops, mills and factories; while the third was picked up in a haphazard way in industrial concerns or was obtained in the course of conducting business.<sup>84</sup> Of the three stages in the development of entrepreneurial qualities as outlined by Chatterton, the state had a decisive role to play as regards the first two.

In so far as industrial and technical education was concerned, the state did not go far enough. Even though the Government of Bengal emphasised its importance in the education curricula, it could not decide whether the desired objective could best be attained by the creation of a separate branch of the education service or otherwise. It took no less than ten years before a decision was taken to transfer the control of technical and industrial education to the Department of Industries in 1920.<sup>85</sup>

TABLE I  
*Technical training institutes in Bengal*  
1 January, 1935

<i>Type of Institute</i>	<i>Total Number</i>
A. Engineering colleges	2
B. Other specialised institutions of collegiate rank	2
C. Technical and industrial schools owned by government	49
D. Technical and industrial schools owned by local bodies	5
E. Private-aided technical and industrial schools	76

Source: Bengal Revenue Proceedings, (Industries), September 1935, No. 22, p. 42.

<sup>82</sup> See N.K. Sinha, 'Indian Business Enterprise: Its Failure in Calcutta (1800-1848)', in *Bengal Past and Present*, Diamond Jubilee Number, 1967, p. 120.

<sup>83</sup> Confidential letter dated 26 November 1915 from the Government of India to the Secretary of State for India in IOR: L/E/7/855.-

<sup>84</sup> Sir Alfred Chatterton, 'Indian Industries', *Capital*, 13 February 1929, p. 327.

<sup>85</sup> *Annual Administration Report of the Department of Industries, Bengal, 1920*, p. 4.



The net result was that technical education was treated until then as a branch of general education and was entrusted to the regular educational authorities. They naturally concentrated on the literary type of education in which they possessed expert knowledge, and even when they realised the importance of technical education their complete unfamiliarity with the needs and methods of industry made it impossible for them to guide the movement along practical lines. Even after the transfer of technical and industrial schools, most of these institutes remained merely preliminary training grounds for various professions like blacksmithy and carpentry.

The state railway workshops which were also grounds for imparting technical education (and practical training) followed a discriminatory policy in admitting students. For instance, in 1920, out of seventy-two Indians who applied to the Kanchrapara Railway Workshop only one was admitted, as against three Anglo-Indians out of eight who applied.<sup>86</sup> The workshop's pay-scales were also unfair to the Indians (see Table 2). The Bengal

TABLE 2  
*Stipends of Anglo-Indian and Indian apprentices (per month in rupees)  
in the Kanchrapara Railway Workshop in the year 1921*

Year	For Anglo-Indian apprentices	For Indian (1st class) apprentices
1st	50	22
2nd	60	26
3rd	70	30
4th	80	34
5th	100	38
6th	120	N.A.

Source: *Bengal Legislative Council Proceedings*, 19 December 1921, Vol. VI, pp. 23-25.

Nagpur Railway Technical School was even more discriminatory. Until 1931, only Anglo-Indian apprentices (thirty-five annually) were trained. In 1931, it was decided to admit Indians of other communities by increasing the number of intakes to 70.<sup>87</sup> At the advanced level, as late as 1939, there

<sup>86</sup> *Bengal Legislative Council Proceedings*, 19 December 1921, Vol. VI, pp. 23-24. The fact that seventy-two students applied for higher technical training demonstrates that the Bengalis were not unwilling to acquire technical knowledge. The same trend was marked at the Dacca School of Engineering as a result of which seats had to be increased. *Quinquennial Report of the Ahsanullah School of Engineering, Dacca for the years 1922-23 to 1926-27*, Calcutta, 1927, p. 2. This was contrary to popular belief that Bengalis were prejudiced towards such education. See, for example, *Annual Administration Report of the Department of Industries*, 1926, p. 36.

<sup>87</sup> *Eighth Quinquennial Review on the Progress of Education in Bengal for the years 1927-32*, Calcutta, 1933, p. 117.

were only two engineering colleges at Sibpur and the Ahsanullah School of Engineering, Dacca, where only overseer and sub-overseer courses existed. Higher engineering training leading to B.E. degree was confined to the Sibpur College only, where a course of four years was followed by one year's practical training. Advanced education in commerce was imparted by the two universities of Calcutta and Dacca and by a Calcutta college. Science education was less common than arts.

If opportunities for acquiring technological and scientific education were inadequate and deficient, the field for gaining practical experience in technology was even smaller. Due to lack of sufficient practical training even the Sibpur boys often failed to apply their acquired knowledge adequately.<sup>88</sup> Also, pupils passing out from industrial and technical schools were engaged in local jobs and did not even get proper training to make a saleable article except for the roughest products of the village artisans.<sup>89</sup> In Japan, on the other hand, model factories had been established between 1870 and 1883.<sup>90</sup> It was from these model factories that industrial leaders, managers and skilled workers had spread out all over Japan and helped in the wider diffusion of industries.<sup>91</sup> Realising the benefits of such pioneering factories, the Indian Industrial Commission (in 1918) and before that, G.N. Gupta (in 1908) had recommended their establishment.<sup>92</sup> But the concept of model factories was not approved by Lord Morley. In one of his despatches to the Madras government (which had asked his sanction for a pioneer factory) he wrote:

The policy which I am prepared to sanction is that State funds may be expended upon familiarising the people with such improvements in the method of production as modern science and the practice of European countries can suggest; further than this the State should not go and it must be left to private enterprise to demonstrate that these improvements can be adopted with commercial advantage. Within the limits here indicated it appears to me that the objects which the Industrial Conference had in view can all be accomplished by means of industrial and technical schools; it is in such schools that knowledge of new industries

<sup>88</sup> J.G. Cumming, *Review of the Industrial Position and Prospects in Bengal in 1908 with special reference to the Industrial Survey of 1890* (Part II of Special Report), Calcutta, 1908, p. 5.

<sup>89</sup> *Annual Administration Report of the Department of Industries, Bengal, 1926*, p. 4.

<sup>90</sup> S. Uyehara, *The Industry and Trade of Japan*, London, 1936, pp. 10–11; G.C. Allen, 'Factors in Japan's Economic Growth', in C.D. Cowan edited *The Economic Development of China and Japan*, London, 1964, p. 195; Yasuzo Horie, 'Modern Entrepreneurship in Meiji Japan', in William W. Lockwood edited, *The State and Economic Enterprise in Japan, Essays in the Political Economy of Growth*, Princeton, 1965, pp. 183–208.

<sup>91</sup> Yasuzo Horie, *ibid.*, *op. cit.*

<sup>92</sup> G.N. Gupta, *A Survey of the Industries and Resources of Eastern Bengal and Assam for 1907–08*, Shillong, 1908, pp. 112–17; and *Report of the Indian Industrial Commission, 1916–18*, London, 1919, pp. 135–36.

and new processes can be imparted, that the use of new implements can best be taught, and the technical skills of the artisans most readily improved. In a leather school the method of chrome tanning can be demonstrated and taught; in a weaving school the indigenous handloom can be improved and the advantage of the improvement demonstrated. If the schools are properly managed they will supply the private capitalist with instructed workmen and with all the information he requires for a commercial venture. To convert the leather or weaving school into a Government factory in order to demonstrate that articles can be manufactured and sold to the public at a profit goes, in my views, beyond what is desirable and beyond what is found necessary in other provinces. My objections do not extend to the establishment of a bureau of industrial information, or to the dissemination from such a centre of intelligence and advice regarding new industries, processes or appliances, provided that nothing is done calculated to interfere with private enterprise.<sup>93</sup>

Indian entrepreneurs had thus to face modern technology with limited technical knowledge, commercial education, and practical experience. They had not only to acquire technological equipment, secure adequate financial resources, develop a market for their products and maintain an efficient organisation, but also to devise new products to meet anticipated consumer demands and maintain good public relations. They had to take decisions as regards the size of the plant and install new machinery, calculate costs of production, and not the least, surmount innumerable obstacles as regards supply of skilled labour, power plant, transportation links and repair shops. Naturally, from the beginning, Indian entrepreneurs were at a disadvantage compared to their European counterparts who had years of practical experience and knowledge in addition to technical knowhow.

## V

Till the end of World War I, the state had followed a policy of laissez-faire as far as the question of industrial development was concerned. This hands-off policy had been justified in the fair name of international division of labour. In the words of C.E. Trevelyan, Financial Member of the Council of the Governor-General:

It is a misdirection of the resources of India to enter into competition with England in this branch of industry. On the other hand, India has, on the cultivation of the rich products of her prolific soil and climate, resources of her own, the development of which is limited only by the

<sup>93</sup> See confidential letter dated 26 November 1915 from the Government of India to the Secretary of State for India in IOR: L/E/7/855.

insufficiency of labour and capital. To divert these elements of production from a profitable to an unprofitable employment, is surely a mistake. Our true course is to adhere to the great division of labour which nature herself has established . . . If the Burwai or any other Iron Works in India are profitable, there is no want of private enterprise and unemployed capital to undertake them.<sup>94</sup>

But private enterprise, as Sir E.C. Buck later pointed out, was nearly always checked by the fear of the cost of initial experiment.<sup>95</sup> Holders of capital preferred to put their money into assured business and held back from new undertakings to which the government gave no direct or indirect support.<sup>96</sup> Under the above circumstances, industrial development of the country was minimal and the few that developed remained heavily dependent upon foreign supplies. This dependency on foreign imports had best been described by J.C.K. Peterson, then the Controller of Munitions, Bengal. He wrote in *The Englishman*:

The two chief industries in Bengal, for instance, the jute and tea industries are almost entirely dependent on supplies from Europe. When war broke out if the supply of raw hide pickers from England had stopped most of the mills on the Hoogly would have had to shut down . . . Most of the other leather stores used in the mills such as picker banes, roller skins, leather belting, etc., and all the machinery and machinery stores also came from Europe.

Much of the Indian tea crop was, and still is, packed in boxes obtained from foreign countries. Patent chests are imported from Russia, Canada or Japan and the metal fittings required from England or America. Hoop iron, nails, clips for fastening the patent chests also come from foreign countries. Without these supplies it would be impossible to pack tea . . . The pruning knives, hoes, forks, and kodallies used in the gardens and practically all the machinery required for the manufacture of tea are also imported. These instances show the danger to India of our dependence upon external supplies.<sup>97</sup>

War emergency and public pressure led in 1916 to the appointment of an Industrial Commission to ascertain the possibilities of further industrial development in India. The report of the Commission, submitted in 1918, made certain radical propositions 'quite different from the laissez-faire that

<sup>94</sup> IOR: MSS. Eur. F. 78, File No. 59/8B, Sir Charles Wood Collection. See, minute by the Hon'ble Sir C.E. Trevelyan on the Burwai Iron Works, Calcutta, 13 June 1863.

<sup>95</sup> Sir E.C. Buck, *Report on Practical and Technical Education*, Calcutta, 1901, pp. 37-38.

<sup>96</sup> Ibid.

<sup>97</sup> J.C.K. Peterson, 'Industrial Development in Bengal', *The Englishman* (Annual Financial Review), 4 March 1918, p. 11.

had come before'.<sup>98</sup> These included, among others, the constitution of permanent department of industries in the provinces, direct state aid to industries, establishment of pioneer and demonstration factories, the creation of an Imperial Chemical Service, and of an Imperial Industrial Service, the creation of a central organisation for the purchase of stores under the Imperial Department of Industries in each provinces.<sup>99</sup> Unfortunately, most of these recommendations of the Commission were ultimately allowed to fall through with the cessation of hostilities and the transference of the subject of industrial development to the provinces under the Montagu-Chelmsford reforms of 1919. The high expectations of all shades of Indian people in favour of state-guided and state-assisted industrial development was thus beguiled.

One positive result of the Indian Industrial Commission was, however, the creation of a permanent Department of Industries in Bengal in 1920 (previously temporarily established in 1917).<sup>100</sup> But due to inadequacy in the allocation of resources to this department, its functions became narrow from the inception.<sup>101</sup> Even in the field of cottage and small industries to which it focused its full attention, only a small beginning could be made 'not as a matter of policy, but entirely by financial means which can be allocated by the Government and placed at its disposal'.<sup>102</sup>

In the field of handloom cotton textiles which supported over 50 per cent of the cottage workers and their dependents,<sup>103</sup> the government drew up programmes of demonstrations in the art of efficient weaving with improved appliances for increasing the earning capacity of the workers as well as for improving the quality and standard of the finished products. These improved appliances included the introduction of fly-shuttle looms, the supply of fly-shuttle sleys for pit looms, warping machines, the introduction of improved bobbies for ornamental work and even jacquard machines for weaving patterns.<sup>104</sup> As a result of the activities of the department and due also to inter-communication among the people themselves, the use of

<sup>98</sup> Clive Dewey, 'The Government of India's New Industrial Policy, 1905-25: A Study in Failure', a paper presented at the Institute of Commonwealth Studies (Postgraduate Seminar) on 10 July 1975.

<sup>99</sup> *Indian Industrial Commission, Summary of Recommendations*, pp. 229-42.

<sup>100</sup> With the establishment of a temporary Department of Industries in 1917 a temporary Director was also appointed. But till the end of 1919, the post of the Director of Industries was held by the Controller of Munitions and the combined officer was called Combined Controller of Munitions and the Director of Industries. See, *Annual Administration Report of the Department of Industries, Bengal, October 1917 to December 1919*, p. 1.

<sup>101</sup> Awwal, *Industrial Development*, Appendix I, p. 239.

<sup>102</sup> *Annual Administration Report of the Department of Industries, Bengal, 1934-35*, p. 1.

<sup>103</sup> Out of nearly a million people supported by the cottage industries of the province, at least half a million were dependent on hand weaving industry alone. See, *Census of India, 1921*, Vol. V, Bengal, Part I, Report, Calcutta, 1923, p. 400; and *Report on the Administration of Bengal, 1917-18*, p. ii.

<sup>104</sup> Awwal, *Industrial Development*, p. 49.

fly-shuttle looms and other improved appliances increased greatly. An industrial survey conducted in 1921, for example, found nearly 30 per cent of the looms in Bengal fitted with fly-shuttles.<sup>105</sup> This had increased to 67 per cent by 1942.<sup>106</sup> As fly-shuttle looms doubled the output of the worker and the clothes turned out by these looms were also claimed to be 'excellently strong and durable', the weavers stood to gain much from these measures.<sup>107</sup> But unfortunately, the irregular supply of yarn, difficulties of marketing individual items of handlooms and financial problems precluded them from reaping the benefits of increased production.<sup>108</sup> No doubt the government tried to solve these problems through cooperative methods but the attempt failed miserably due to financial reasons as well as due to lack of sustained effort on their own part. Till 1943, there were only 355 weavers' cooperative societies having a total membership of 5,467 persons, which was only 2.3 per cent of the total number of weavers in Bengal.<sup>109</sup> The industry thus remained, according to the Bengal Industrial Survey Committee:

... generally under the grip of the mahajans who in most of the cases act as creditors and suppliers of yarn to the weavers and also market the finished stuffs. The mahajans' interposition between the weaving community and the market is primarily due to the lack of any organisation amongst the workers, whose principal difficulty is want of funds.<sup>110</sup>

In the realm of tanning, the government for the first time came forward to help the industry in 1919 through the establishment of the Calcutta Research Tannery which in 1925 became Bengal Tanning Institute. The Institute provided apprenticeship classes to the *mofussil chamars* and *bhadrolog* youths. It also demonstrated through its two peripatetic tanning demonstration parties the modern improved methods of tanning at different places of the province. But the most fruitful result was obtained from the actual research work done at the Institute as a result of which leather equal, for all practical purposes, to the highest grade of imported leather was manufactured in Calcutta on a large scale.<sup>111</sup> This improvement was made possible due to the introduction of western processes of chrome tanning and an improved process of vegetable tanning in place of the primitive methods used by the *chamars* of Bengal. This resulted in the establishment of many small scale and cottage tanning industries in Calcutta which together produced fifty lakh square feet of chrome upper leather

<sup>105</sup> *Census of India, 1921*, Vol. V, Bengal, Part I, Report, pp. 400-01.

<sup>106</sup> *Report of the Fact-finding Committee (Handloom and Mills)*, Delhi, 1942, p. 32.

<sup>107</sup> Awwal, *Industrial Development*, pp. 211-12.

<sup>108</sup> *Ibid.*, pp. 222-28.

<sup>109</sup> *Bengal Legislative Council Proceedings*, 17 February 1943, First Session, p. 11.

<sup>110</sup> *Bengal Industrial Survey Committee*, p. 45.

<sup>111</sup> IOR: Vol. 11988, Bengal Revenue Proceedings (Industries), March 1933, Nos. 1-2, p. 15.

valued at about twenty lakhs of rupees in 1931–32.<sup>112</sup> In addition, large quantities of sole leather and varnished leather were also turned out by the Calcutta tanners. The real stimulus to the development of chrome leather industry came from the signing of the Ottawa Trade Agreement in 1932. In it the industry got an opportunity to develop to a much greater extent in three years than what it did in thirty years by private attempts.<sup>113</sup> But as the benefits accruing from the improvements made in the tanning industry through research and market expansion did not reach the vast multitude of *chamars* living and working in the countryside, their economic condition remained precarious.

To improve other cottage industries (pottery, cutlery, soap-making, bell-metal, paint and varnishing industry, etc.) on proper scientific lines the government, in December 1921, appointed an industrial chemist. Next year an industrial engineer was also appointed. The work of these officers was mainly to collect all relevant information regarding the economic and technical aspects of the other existing industries; the design, construction and development of labour saving appliances which would eliminat drudgery from cottage industries; and the assimilation of industrial and commercial intelligence which would lead to the location of markets. The industrial engineer besides developing an improved variety of potters wheel, also introduced a new kiln and a new process of glazing for ornamental pottery which proved beneficial to the pottery industry.<sup>114</sup> Attempts were also made to induce the *kumars* to adopt the glazed pottery to increase their earning capacity. With other cottage industries, the Department of Industries also drew up short term demonstration programmes through which the various aspects of improving the manufacturing processes were shown. However, as these parties stayed for too short a period in each place, people could not reap the full advantage of their instructions.<sup>115</sup>

The most widespread demonstrations of the techniques of production were carried out under the Unemployment Relief Scheme inaugurated in 1932–33 to give the unemployed *bhadrolog* an opportunity to be trained in the new and improved processes which would effect remunerative occupation (the inner objective was to contain terrorist activities).<sup>116</sup> Under the scheme, 28 demonstration parties in seven important local and indigenous industries were set up. Among the industries selected were the preparation of jute and woollen textiles, boot and shoe making, brass and bell-metal, umbrella making, soap-making, cutlery making and pottery. Till 1935–36, over a thousand students received training, of which 241 started

<sup>112</sup> *Annual Administration Report of the Department of Industries, Bengal, 1931–32*, p. 20.

<sup>113</sup> *Ibid.*, 1935–36, p. 23.

<sup>114</sup> *Ibid.*, 1930–31, p. 17; *Report on the Administration of Bengal, 1934–35*, p. 159.

<sup>115</sup> *Bengal Legislative Council Proceedings*, 29 March 1933, Vol. XLI, No. 2, pp. 710–12.

<sup>116</sup> For details, see, Iftikhar-ul-Awwal, 'The Problem of Middle Class Educated Unemployment in Bengal, 1912–1942', in the *Indian Economic and Social History Review*, Vol. XIX, No. 1, pp. 41–42.

independent factories and 166 students found employment (so it was claimed by the Department of Industries).<sup>117</sup> But it is difficult to believe that the scheme was anything near the success claimed by the Government of Bengal. Firstly, only Rs. 100,000 was sanctioned annually for the scheme.<sup>118</sup> This small amount of money necessarily limited the extension of training facilities to wider areas. Secondly, the scheme did not provide for loans to successful students who intended to start business. 'No financial obligation or responsibility of any kind is undertaken by the Department . . . but in case of financial difficulties the students are eligible for applying for industrial loans under the State Aid to Industries Act'.<sup>119</sup> Unfortunately, however, due to the narrowness of the provisions of the Act, it was difficult to obtain loans under the said Act.<sup>120</sup> Another handicap was regarding the marketing of cottage industry products (as we shall see later). 'Until these two important factors', observed S.C. Mitter, the Director of Industries, Bengal, 'namely, finance and marketing, are brought to its aid, it may not be, in my humble opinion, desirable to enquire into the working of the Unemployment Relief Scheme'.<sup>121</sup>

The efforts in the direction of marketing cottage industry products, as has already been indicated, left much to be desired. The government tried to tackle the problem through cooperative methods but failed in their attempts for two reasons. Firstly, as in the case of handloom cotton weaving, due to a high price charged for mill yarns, and secondly, to the heavy overhead charges of the Cooperative Industrial Unions as a result of which the minimum market price of cotton fabrics of the handloom industry was found to be much higher than the prices at which the mill products of similar quality were sold.<sup>122</sup> In 1929, to relieve the Industrial Unions in disposing of their finished goods, these were federated into a provincial organisation called the Bengal Provincial Cooperative Industrial Society Limited. But 'for want of sufficient funds at its disposal' and because it worked mainly with borrowed capital for which it had to pay a high rate of interest, the provincial organisation could not be of much help to the Industrial Unions and maintained only a Sale Depot in Calcutta in which finished goods were displayed.<sup>123</sup> Apart from cooperative methods of marketing which had not been quite satisfactory, the government granted loans and subsidies voluntary associations like the Bengal Home Industries

<sup>117</sup> IOR: Vol. 12075, Bengal Revenue Proceedings (Industries), December 1936, Nos. 13-14, p. 22.

<sup>118</sup> Awwal, 'Middle Class Unemployment', p. 42.

<sup>119</sup> BSR, Bundle No. 5, Proceedings of the Department of Agriculture and Industries (Industries), B Proceedings, File No. 1C/19 of 1937. See, Note on the scheme for helping educated young men in starting small scale industries, p. 3.

<sup>120</sup> Awwal, *Genesis and Operation of the Bengal State Aid to Industries Act*, pp. 409-19.

<sup>121</sup> BSR, Bundle No. 4, Proceedings of the Department of Agriculture and Industries (Industries), B Proceedings, March 1938, No. 26B, p. 2. See, S.C. Mitter's minute dated 4 January 1938.

<sup>122</sup> Awwal, *Industrial Development*, p. 224.

<sup>123</sup> *Ibid.*, p. 226.



Association founded in December 1916 by Lady Carmichael for the promotion and development of home industries of the Presidency<sup>124</sup> and the Good Companions started in January 1934 under the approval and patronage of the Countess of Willingdon to provide a central depot for the sale of the products of industrial missions and associations formed for the purpose of encouraging village handicrafts of all kinds.<sup>125</sup>

### Conclusion

The British government in India had actively participated in almost all spheres of economic life. To facilitate trade and commerce, it had extended roads, built railways and canals, improved seaports and abolished internal and external duties. In the agricultural sphere, from about 1870, Indian government directed systematic attention to foster and improve Indian agriculture. As a result of governmental activities agriculture and trade had expanded but it failed to improve the economic condition of the masses.<sup>126</sup> The reason for this lay in the fact that the entire thrust of government policy was unnatural and inimical to the balanced development of the Indian economy. Industrial development which was the crying need of the hour was totally neglected.<sup>127</sup> It was left outside the orbit of governmental assistance.<sup>128</sup> For fear of losing markets, the British government instead of patronising Indian industries had rather created innumerable obstacles in

<sup>124</sup> The inaugural ceremony was held at Government House on the 16 December 1916 with Lady Carmichael in the chair. The actual organisation commenced in February 1917 and the working of the Association took a practical form during July 1917 when the Sale Depot was formally opened by Lady Ronaldshay. Lady Carmichael having left India. The Headquarters of the Association were then at 3, Hogg Street, Calcutta. See *The Bengal Home Industries Association: Annual Report with Accounts for the year ended 31st March, 1935*, Protiva Press, Calcutta, n.d., p. 3. The work of this organisation is detailed in Iftikhar-ul-Awwal, 'Activities of the Bengal Home Industries Association, 1917-1940', in the *Journal of the Asiatic Society of Bangladesh*, Vols. XXIV-VI, 1979-81, pp. 179-88.

<sup>125</sup> IOR: Vol. 12018, Bengal Revenue Proceedings (Industries), September 1934, Nos. 12-14, pp. 21-22.

<sup>126</sup> India's per capita income during the last quarter of the nineteenth century remained one of the lowest in the world. Estimates ranged from Rs. 18 calculated by Digby in 1899 to Rs. 39.5 by Atkinson in 1895. For further details see V.V. Bhatt, *Aspects of Economic Change and Policy in India, 1800-1960*, Bombay, 1963, pp. 18-25. The economic condition of the general masses were still worse due to great inequalities in the distribution of wealth.

<sup>127</sup> Even the Famine Commission of 1879 agreed that:

... at the root of much of the poverty of the people of India and of the risks to which they are exposed in seasons of scarcity lies the unfortunate circumstances that agriculture forms almost the sole occupation of the mass of the population, and that no remedy for present evils can be complete, which does not include the introduction of a diversity of occupations through which the surplus population may be drawn from agricultural pursuits and led to earn the means of subsistence in manufactures or some such occupations.

Report of the Indian Famine Commission (Parliamentary Paper LII of 1880), Part II, p. 175.

<sup>128</sup> Agricultural activities, leaving aside industrial development, were undertaken mainly to extract raw materials for British industries and not for industrial use within the country. India had become during this period a kind of complement to western Europe, giving out raw

its path. Nascent industries were allowed to be swamped by products of foreign nations. Undue preference was shown to British products even if indigenous goods of comparable quality and price were available. Financial assistance to industrial entrepreneurs was held back nor did the state create industrial credit institutions. In the field of commercial, technical and industrial education, little was done; nor were sufficient facilities provided for practical training. Exposed to such hostile political environment, industrial development, leaving aside a few economic enclaves, was negligible. An attempt at industrial diversification after the granting of discriminatory protection also did not materialise due to lack of concomitant, stimulatory support and sustaining activities on the part of the government. Thus the pious wish of the people for far-reaching state assistance in building up a solid industrial infrastructure remained only a chimera during British rule.

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material and food and taking from it manufactured articles. Such an expansion of trade based upon primary products of the soil was indeed of questionable benefit to the country. In the second decade of the twentieth century, according to Deole, 73 per cent of the export trade was of unfinished goods and 77 per cent of the imports manufactured articles. See, C.S. Deole, *The State in Relation to Indian Industries*, Bombay, 1916, p. 7.